

## Message Text

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ACTION EB-04

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 4923

TREASURY DEPT WASHDC

C O N F I D E N T I A L TOKYO 0992

LIMDIS/GREENBACK

E.O. 11652: GDS

TAGS: EFIN, JA

SUBJECT: MOF BUDGET ACTION ON PRECIOUS METALS SPECIAL ACCOUNT

1. SUMMARY: MOF HAS ANNOUNCED PLANS WHICH WILL AUGMENT BUDGETARY RECEIPTS IN JFY 1977 BY YEN 100 BIL THROUGH TRANSFER TO BOJ OF 80 TONS GOLD AND DISPOSITION BY SOME AS YET UNDECIDED MEANS OF ANOTHER 20 TONS, THUS CLOSING OUT MOF SPECIAL ACCOUNT FOR MANAGEMENT PRECIOUS METALS (ROUGHLY, MOF INDUSTRIAL GOLD ACCOUNT). FOREGOING FIGURES IMPLY TRANSACTIONS AT MARKET - RELATED PRICES. HOWEVER, TRANSACTIONS WILL NOT BE MADE UNTIL AFTER AMENDED IMF ARTICLES COME INTO FORCE, ASSUMING THIS PROCESS COMPLETED BY CLOSE JFY AT END MAR 1978, TO AVOID POSSIBLE CONFLICT WITH PRESENT IMF ARTICLES PROHIBITIONS AGAINST PURCHASES BY MONETARY AUTHORITIES OF GOLD AT MORE THAN OFFICIAL PRICE AND, HOPEFULLY, ADVERSE REACTION FROM ABROAD. END SUMMARY.

2. RESPONSIBLE FINMIN AND BANK OF JAPAN OFFICIALS HAVE ADVISED FINATT THAT PROPOSALS WILL BE FORWARDED TO DIET IN CONJUNCTION WITH BUDGET TO ABOLISH MOF SPECIAL ACCOUNT FOR MANAGEMENT OF PRECIOUS METALS, CONFIRMING PRESS CONFIDENTIAL

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REPORTS TO THIS EFFECT. OFFICAL RATIONALE GIVEN FOR ABOLITION OF ACCOUNT IS THAT IT IS NO LONGER NECESSARY BECAUSE OF LIBERALIZATION IN 1973 OF PRIVATE RESIDENTS' TRANSACTIONS IN GOLD, BUT IT WAS PRIVATELY MADE CLEAR THAT REAL MOTIVATION IS MOF NEED TO PULL TOGETHER FUNDS TO ALLEVIATE PROBLEMS OF FINANCING FY 1977 BUDGET DEFICIT.

3. SPECIAL ACCOUNT NOW CONTAINS ABOUT 100.5 TONS OF GOLD AND SMALL AMOUNTS OF OTHER PRECIOUS METALS (MAINLY, SILVER, WHICH WILL BE TRANSFERRED TO THE GENERAL ACCOUNT OF THE TREASURY). OF THE GOLD, TITLE TO 35 TONS ALREADY CARRIED IN BOJ RESERVES WILL BE TRANSFERRED TO BOJ. ANOTHER 45 TONS WHICH GOJ BOUGHT FROM BOJ BEFORE WOULD WAR II TO EFFECT INTL SETTLEMENTS (APPARENT PURPOSE WAS SUPPORT FOR JAPANESE TROOPS IN ASIA) WILL BE RESOLD TO BOJ UNDER RESALE AGREEMENT OUR SOURCES SAY WAS ENTERED INTO BY GOJ DURING THAT PERIOD; THIS AMOUNT IS NOT PRESENTLY CARRIED IN BOJ RESERVES. REMAINING 20 TONS TO BE DISPOSED IN MANNER YET TO BE DECIDED.

4. FOR BUDGET PURPOSES, MOF ESTIMATES VALUE OF TRANSACTIONS PARA 3 AT JUST UNDER YEN 100 BIL, OR ROUGHLY \$345 MIL AT ASSUMED YEN 290/DOLLAR EXCHANGE RATE, WHICH IMPLIES PRICE WELL ABOVE CURRENT OFFICIAL PRICE. WITHOUT PREJUDICE AS TO WHETHER INTERNAL GOVT-CENTRAL BANK TRANSACTIONS INVOLVED COME WITHIN SCOPE OF PRESENT IMF ARTICLES' PROSCRIPTIONS AGAINST PURCHASES BY MONETARY AUTHORITIES AT PRICES ABOVE OFFICIAL PRICE, GOJ HAS OPTED TO AVOID POSSIBLE LEGAL WRANGLE BY DEFERRING TRANSACTION UNTIL AMENDED IMF ARTICLES COME INTO FORCE (ASSUMING THAT WILL BE BEFORE END MAR 1978 -- END OF JFY 1977).

5. MOF AND BOJ OFFICIALS EXPRESSED HOPE THAT THIS TRANSACTION WILL NOT BECOME HIGHLY PUBLICIZED AND EXPLICITLY ASKED THAT WE NOT MAKE PUBLIC USE OF ANY INFORMATION GIVEN CONFIDENTIALLY. THEY ARE APPARENTLY TRYING (NOT TOO SUCCESSFULLY, IT MIGHT BE ADDED) TO RESTRICT CONFIDENTIAL

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THEIR PUBLIC COMMENT BASICALLY TO THE STATEMENT THAT THE SPECIAL ACCOUNT WILL BE ABOLISHED BECAUSE IT IS UNNECESSARY; THAT 80 TONS OF GOLD WILL BE TRANSFERRED TO THE BOJ AND ANOTHER 20 TONS DISPOSED OF IN A MANNER NOT YET DECIDED; AND THAT ABOUT YEN 100 BIL WILL BE REALIZED IN FY 1977. THEY ARE OBVIOUSLY HOPING BOTH THAT TRANSFERES TO BOJ WILL BE REGARDED AS INTERNAL BOOKKEEPING PROCEDURE AND THAT THEY WILL NOT BE INTERPRETED AS INDICATING ANYTHING ABOUT JAPAN'S GOLD POLICY.  
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## Message Attributes

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